

Final Report

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Slide Presentation made by the Expert Advisory Team at the September 2002 CMU Strategic Planning Workshop

List of Acronyms

| | |
|--------------|--|
| CMU | Contract Management Unit |
| KPI | Key Performance Indicators |
| SDA | Service Delivery Agreement |
| SU | Shareholder Unit |
| UAC | Utilities, Agencies and Corporatised Entities |
| USAID | United States Agency for International Development |

1. INTRODUCTION

This project completion report has been prepared to provide summary documentation of the Expert Advisory Support Services provided to the Contract Management Unit of the City of Johannesburg. This Expert Advisory Support was provided by PADCO, Inc. under its contract with USAID, Contract Number LAG-I-00-99-00035-00, Task Order 806.

The City Council of the City of Johannesburg, over a two-year period, had designed and implemented a wide range of reforms focused on the introduction of private sector participation in, and the improved delivery efficiency of, key municipal services. A major element of this reform was the transformation of the traditional departments of the City Government into corporatized entities, wholly owned by the City of Johannesburg. To manage the City's relationship within this reformed structure of public service delivery, the City Council created a Contract Management Unit (CMU), within the Office of the City Manager.

The City Council requested support from USAID for Expert Advisory Services to review the business plan of the CMU and to assist the City Council, the City Manager and the CMU in clarifying the role of the CMU under this new model of municipal management.

These Expert Advisory Services were initiated in September of 2001 and completed in November of 2002. The Expert Advisory Services were implemented by means of a series of on-site visits conducted by the Expert Advisory Team.

If the Expert Advisory Team was successful in providing its services, it owes a great deal of that success to the dedication and professionalism of the staff of the CMU at the time these services were provided. In particular, the Expert Advisory Team is indebted to Ms. Phindile Nzimande, Executive Director of the CMU, and Mr. Prem Govender, a Director of the CMU and Principal Coordinator for the project. The Expert Advisory Team was also supported by the World Bank.

2. PROJECT OBJECTIVES AND SCOPE OF WORK

The objective of the technical assistance was to provide expert advisory services to the City of Johannesburg Contract Management Unit (CMU) to strengthen and support successful completion of contracting for management of key municipal services.

In addressing its stated objective, the Expert Advisory Team was tasked to undertake a very specific Scope of Work, which included:

- a. Perform a complete evaluation of the existing Institutional Framework for the CMU and prepare recommendations for revisions.
- b. Develop an Implementation Strategy based on the Institutional Framework Recommendations resulting from the evaluation above.

- c. Monitor and evaluate the implementation of the revised Institutional Framework of the CMU.

Once the Expert Advisory Team arrived in Johannesburg for its initial on-site visit, and conducted an initial round of CMU staff interviews, as well as interviews with other stakeholders to the process, to include City Council members of Portfolio Committees; service delivery entities; other senior management in the Office of the City Manager; as well as various consultants that have been utilized by the CMU on special assignments, it became obvious that there were some fundamental issues that needed to be addressed. Consequently, rather than focus on refining an action plan, it was decided, with agreement from the CMU, to work toward redefining the role and responsibilities of the CMU.

This decision resulted in the generation of a document titled, "Discussion Paper on Issues and Options for the CMU". Feedback from the Discussion Paper then formed the foundation for the preparation of the "Institutional Analysis and Implementation Strategy".

The original period of service for the Project was one year ending on 31 August 2002. In the Summer of 2002, USAID agreed to a time extension until 14 November 2002. Since all of these processes, when allowing for proper review and discussion amongst the stakeholders, took considerably more time than originally foreseen, the extended Project period ended without ever actually moving into the monitoring phase of the Revised Institutional Framework.

3. EXPERT TEAM MEMBERS

The Expert Team assembled by PADCO, Inc. consisted of three members:

Philip Giantris, Team Leader

Mr. Giantris is the President of Valu Add Management Services, and is a Senior Urban Policy Specialist in the delivery of public sector infrastructure services, as well as the development of options for private sector delivery of public services. He has extensive experience providing advisory services to the public sector in procuring private sector service delivery in South Africa.

David Keith

Mr. Keith is a Senior Partner with PA Consulting Group, and is a Senior Urban Policy Specialist with particular expertise in power supply, and private sector participation options in that sector. He has experience throughout Africa.

Thelma Triche

Ms. Triche is an independent consultant, a Senior Urban Policy Specialist, and a former senior staff member at The World Bank in their infrastructure privatization group, with extensive experience in Southern Africa.

4. EXPERT TEAM ON-SITE VISITS AND PRINCIPAL ACTIVITIES

a. On-Site Visit Number 1 (1 –15 October 2001)

Mr. Giantris and Mr. Keith, of the Expert Advisory Team, conducted an initial round of CMU staff interviews, as well as interviews with other stakeholders to the process, to include City Council members of Portfolio Committees; service delivery entities; other senior management in the Office of the City Manager; as well as various consultants that have been utilized by the CMU on special assignments. Ms. Triche joined the team for a wrap-up meeting on Oct. 15. The major result of these initial interviews revealed that there were some fundamental issues that needed to be addressed before there could be any refinement of the CMU's Business Plan. Consequently, rather than focus on refining a business plan, it was decided, with agreement from the CMU, to work toward redefining the role and responsibilities of the CMU.

This decision resulted in the generation of a document titled, "Discussion Paper on Issues and Options for the CMU".

The Discussion Paper was structured to identify key issues that impacted the role of the City Council in the exercise of its responsibilities and authorities under Section 81 of the Municipal Services Act. The objective was to clarify and define the role that the Contract Management Unit, which is under the City Manager, must play to ensure that the conditions of Section 81 are addressed under the recent municipal services model that has been implemented by the City of Johannesburg.

The Discussion Paper identified major theme areas, and then issues and options within theme areas, which needed to be addressed by the CMU staff and Portfolio Committee members to arrive at a consensus. The Discussion Paper was distributed by the CMU.

b. On-Site Visit Number 2 (4-16 November 2001)

This second on-site visit was very soon after the first on-site visit, and was designed to use the Discussion Paper to facilitate the input of various stakeholders relative to the themes and issues presented. This input then became the basis for the development of the Draft Functional Analysis and Implementation Strategy.

c. On-site Visit Number 3 (31 Jan 02)

A one-day, on-site visit was made by David Keith, while he was passing through Johannesburg on another assignment. He met with Phindi Nzimande and Prem Govender to discuss recent activities within the CMU and to receive comments on the Draft Functional Analysis and Implementation Strategy that had been prepared and presented to the CMU in November.

d. On-Site Visit Number 4 (14- 24 April 2002)

This on-site visit was scheduled to support the CMU in the conduct of the first workshop that discussed the revised Draft Functional Analysis and Implementation Strategy in an

open forum, to include CMU staff, Portfolio Committee Chairpersons, and other senior managers from the Office of the City Manager. Also participating in this workshop was the consulting firm of Price Waterhouse Coopers, who presented an alternative perspective to the issue of the separation of the roles of shareholder and client within the overall City administration. Following the workshop, the Expert Advisory Team was asked to prepare a Briefing Note on Distinguishing Between Shareholder and Client Roles in the Oversight of UACs. This note included an analysis of several options for separating the roles within the City government. The entire Expert Advisory Team was present for this on-site visit.

This on-site visit included a formal presentation of the revised Draft Functional Analysis and Implementation Strategy to the senior staff at USAID-Pretoria. Present for that presentation were representatives of the National Treasury. Input from these two presentations, as well as further reviews with the senior management of the CMU, lead to the final revised Draft Functional Analysis and Implementation Strategy dated 15 May 2002. This final revised draft and the above mentioned Briefing Note were used by the CMU to report to the Mayoral Committee in preparation for the Mayoral Committee's strategic planning and budget retreat.

The result of that Mayoral Committee retreat was to approve the proposal of the Expert Advisory Team to formally separate the shareholder and client functions relative to the municipally-owned entities and to remove the shareholder function from the responsibilities of the CMU into a separate Shareholder Unit (SU). This then allowed for a restructuring of the CMU along the clear lines of a contract management unit that dealt at "arms length" with its various service providers.

e. On-Site Visit Number 5 (6-19 September 2002)

This last of the on-site visits included David Keith and Thelma Triche of the Expert Advisory Team. The primary purpose of the visit was to assist CMU and SU to develop long-term mandate/vision/ implementation strategies as well as action plans for the next few months. The target was to make a presentation on this topic at the 3-day CMU/SU retreat 10-13 September 2002.

The Team was also asked to review and refine job descriptions for CMU staff that were consistent with its more clearly defined role, to better clarify and distinguish among the roles and responsibilities of the directorates, and to propose skill requirements for the directors.

The Team was to also provide advice on performance contracts (trade-off of KPI vs. tariffs), and regulatory monitoring implications for the CMU, as well as general advice on arguments for establishing service companies and public-private partnership theory and practice, to be used by the CMU as input to the Municipal Finance Bill parliamentary debates.

5. REPORTS AND OTHER PRINCIPAL OUTPUTS

All of the reports and other principal outputs have been submitted to the CMU, as well as to the USAID-Pretoria, during the course of the Project. The purpose of this section of

the Project Completion Report is to present a summary of these outputs as a convenient reference for the recommendations at the end of this Report. Specific outputs presented in summary form later in this section include:

- Discussion Paper on Issues and Options for the CMU (16 October 01)
- Presentation at April 2002 CMU Strategy Workshop
- Memo on Distinguishing Between Shareholder and Client Roles (29 April 02)
- Final Draft Functional Analysis and Implementation Strategy (15 May 02)
- Presentation at CMU Business Planning Workshop (13 Sep 02)
- Final Position Descriptions (19 September 02)

Other outputs prepared at the request of the CMU included the following:

- Memo on CMU tariff process (18 September 02)
- Memo on contract management packages (19 September 02)
- Memo on CMU task order process (19 September 02)
- Memo on performance contracting approach (19 September 02)

a. Discussion Paper on Issues and Options for the CMU

The Discussion Paper presented specific Themes, and Issues under each Theme with Options, for the consideration by the CMU staff and various stakeholders in the process of arriving at a consensus as to the redefined role of the CMU. The Themes and the Issues are summarized below. For a complete presentation of the Options under each Issue, the reader will need to refer to the complete Discussion Paper.

Theme 1: City Council as Sole Shareholder of Companies and Client Under Service Delivery Agreements.

It was clearly understood, when the various municipal service entities were corporatised, that the City of Johannesburg, acting through its City Council, was the sole shareholder of the corporatised entities (Companies). As the only shareholder, it has the right to name the Board of Directors of the Company. This gets somewhat complicated, when the sole shareholder of the Company is also the principal client of the Company with regard to the delivery of services (Service Delivery Agreement).

Issue: Who should have the role as representative of the shareholder (City Council) and have input to the naming of the various Boards of Directors?

Issue: Who should determine the compensation to members of the various Boards of Directors?

Issue: Who is the "Client" of the Service Provider, and therefore, who should be the signature to the SDA with the Service Provider?

Theme 2: Municipal Duties in the Administration of Laws, By-Laws and Regulations, as well as the Performance of Administrative Services.

Several sections of the Municipal Systems Act refer to the requirement for municipalities to develop laws, by-laws and regulations to comply with the requirements of the Municipal Systems Act. In addition, there are a number of administrative functions and services that the recently corporatized municipal service entities performed, when under direct City Council administration, that they no longer can, or do, perform. Lastly, it is important to reconsider how the human resources of the City Manager's Office should be utilized under the new management model of corporatized municipal services.

Issue: Who should prepare laws, by-laws and regulations related to the various corporatised entities, and the sectors that they serve?

Issue: Who should license and regulate the provision of services in the local economy by private service providers?

Issue: How should the responsibilities of the City Council be performed to satisfy Section 81 of the Municipal Systems Act?

Theme 3: Defining and/or Procuring/Engaging Public Services

Although the current political climate with the City Council of Johannesburg, for the delivery of public services, is to work within the existing, corporatised entities, it is important to view this theme in the possible broader perspective of commercial outsourcing of services.

Issue: Who is responsible to define the standard of services to be provided to the public (community) for any given public service?

Issue: Who is authorized to review and provide input to a Business Plan prepared by a corporatised service provider?

Issue: Who is responsible to conduct any procurements related to the delivery of public services?

Theme 4: Regulating and/or Monitoring the Service Provider

Issue: Should there be any basis for regulation outside of the SDA?

Issue: How proactive and intrusive is the monitoring role of the client (City) relative to the service provider?

Theme 5: Customer Care and Management

Chapter 9 of the Municipal Systems Act addresses the responsibility of municipalities relative to the implementation of a customer care and management program, as it relates to rates and other taxes. In restructuring municipal service delivery around Company Act, the City of Johannesburg has effectively created a service monopoly for each of these companies in their respective sectors.

Issue: How should the customer care and management requirements of the Municipal Systems Act be addressed and by whom?

Issue: If customer care and management is left in the hands of the service provider, is there also a need for a formal customer satisfaction function and public hearing process, outside of the service provider activities?

b. Presentation at April 2002 CMU Strategy Workshop

The evolution of the functional analysis and implementation strategy for the CMU involved a number of iterations in light of the variety of stakeholders that needed to clearly understand the differentiation between the shareholder role and the client role. In addition, once understood, then there was further need to consider options to revise the municipal structure to accommodate that change. The April 2002 Workshop was the culmination of the evolution process. It provided the collective input for the final revision of the Draft Functional Analysis and Implementation Strategy.

A copy of the slide presentation made by the Expert Advisory Team at this workshop is included at the end of this report.

c. Memorandum on Distinguishing Between Shareholder and Client Roles

The Expert Advisory Team prepared this memorandum to clarify the point that the City as shareholder had different interests than the City as client, and that it is important to distinguish between the two, so as to pursue both sets of interests in an appropriate manner.

As shareholder in the UAC's the City's objectives are to:

- Protect and optimise the use of assets,
- Pursue growth,
- Receive a return on its investment, and
- Ensure compliance with the Law so as to avoid financial liability and protect the reputation of the company.

As client of the UAC's, it desires to:

- Receive satisfactory services at the lowest price feasible, and
- Ensure that the services are provided in a manner that promotes the achievement of the City's social and economic policies and objectives.

The detailed functions of the shareholder (to appoint the Board of Directors, provide and monitor strategic direction, approve annual corporate plan, etc.) and those of the client (to determine the needs of consumers, formulate targets for service quality and coverage, negotiate service delivery agreements, monitor performance, etc.) were listed.

Finally, the advantages and disadvantages of several organizational options for separating the two roles at both the administrative and political levels were presented.

d. Draft Functional Analysis and Implementation Strategy

The final draft version of the Functional Analysis and Implementation Strategy was issued on 15 May 2002. This was much later than the expected delivery date, given that the first draft version was delivered on 16 November 2001. However, this long delay reflected the practical realities of the challenges posed by fundamental changes being made in defining the role of the CMU, and in developing a consensus around this new approach of differentiating between the shareholder and client roles of the City.

The Executive Summary of this final draft version is presented below as a reference.

Executive Summary of Draft Final Functional Analysis and Implementation Strategy

EXECUTIVE SUMMARY

Introduction

The Johannesburg City Council has designed and implemented a wide range of reforms designed to improve the financial performance, efficiency and accountability of public service delivery. A key component of this reform was the transformation of twelve former municipal service departments and agencies into utilities, agencies and corporatised entities (UACs) under the Companies Act. A Contract Management Unit (CMU) was created to negotiate Service Delivery Agreements (SDA's) under which the UAC's provide either public services to the residents of the City, or support services to the City Administration. The CMU is also charged with monitoring the performance of the service providers and their compliance with the SDA's.

The Council requested specialist advisory inputs to ensure that international best practices were being employed by the CMU. PADCO was selected by the United States Agency for International Development (USAID) to provide Technical Assistance to the CMU for that specific purpose. In addition, The World Bank, with funding from the Cities Alliance, also contributed funding and expert assistance to the Advisory Team.

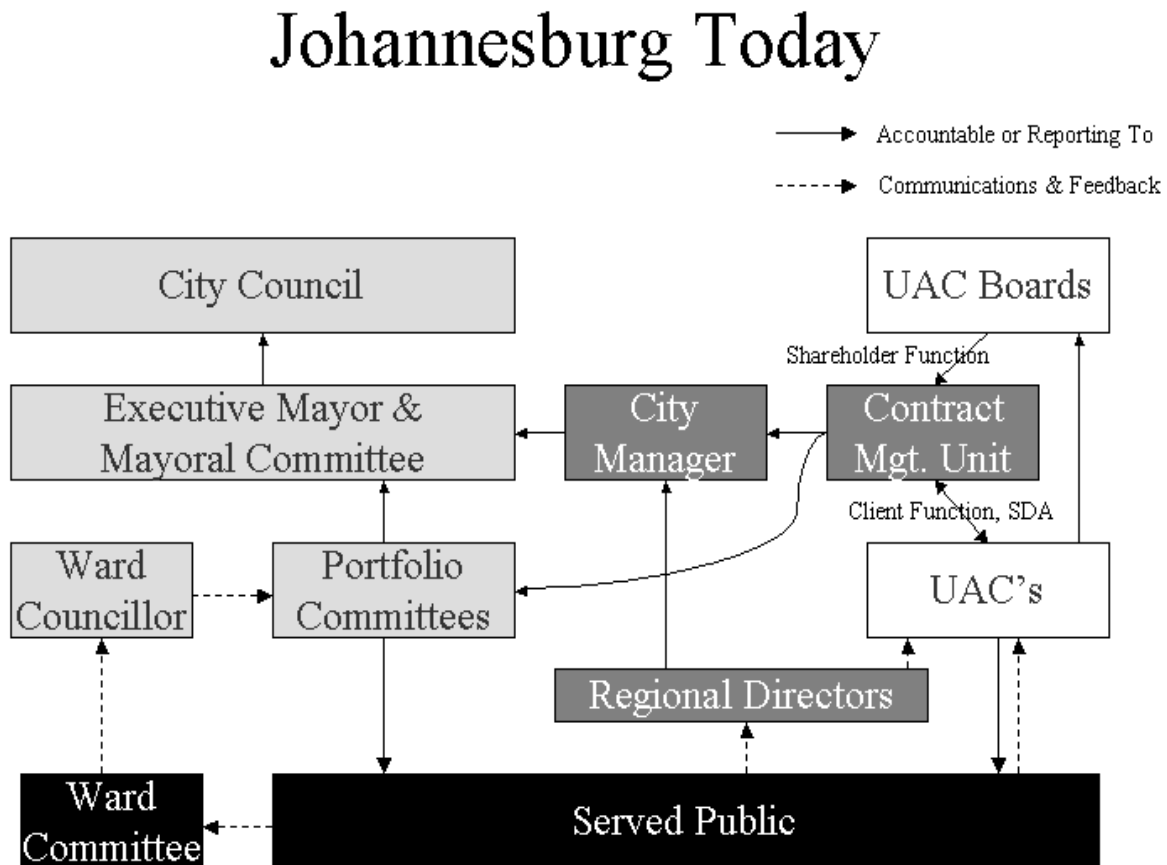
In carrying out its analysis, the PADCO Advisory Team interviewed a variety of stakeholders. These included the entire staff of the CMU, three of the four Portfolio Committee Chairpersons of the City Council, and the Managing Directors or senior staff of all of the UAC's. In addition, informational meetings were conducted with consulting advisors under contract to the CMU; representatives of the National Department of Finance, and the Executive Director of Finance for the City.

The Analysis Phase made it clear to the Advisory Team members, that the issues were larger than merely the form, function, and staffing of the CMU. More basic questions were being raised as to the role, responsibility and authority of the CMU, and the channels of reporting for the UAC's. Thus, the Advisory Team agreed to identify the key roles to be played in contracting and supervising the UAC's, and recommend how these roles might be allocated among the Council, City Management, and the CMU, in light of existing law as well as international best practice. The intent of this broader approach was to provide an objective set of recommendations, as they relate to ensuring and protecting the public interest in the delivery of public services.

Executive Summary of Draft Final Functional Analysis and Implementation Strategy (continued)

The Johannesburg Model - Fundamental Issues

Based on the analysis, a generalized depiction of relationships under the Johannesburg model was drawn up, as shown in the following diagram, “Johannesburg Today”.



The Advisory Team perceived a lack of clarity in some of the roles depicted, particularly between the client and shareholder roles, and identified a number of issues, as described below.

- The UAC's have now been formed as corporations. As such, a corporation needs to have its strategy agreed with its shareholder.
- Issue: Long-term corporate strategies do not appear to be in place, at least from reading the current business plans.
- City Council is the shareholder of the UAC's. As such Council has interests in setting the strategic course for each UAC, in ensuring preservation of capital and protection of the asset base, and in obtaining a return on the invested capital.
- Issue: Portfolio Committees seem to have this role, while also being held responsible for the client role described below.

Executive Summary of Draft Final Functional Analysis and Implementation Strategy (continued)

- Municipal government represents the served public as client of the UAC's. As such, government is the counterpart to the SDA's, to ensure that service standards are met at the least cost to the served public.
- Issue: Serving the public is the primary focus of the interest of Portfolio Committees, rather than the shareholder role described above.
- The CMU is a unit of the City, and is thus an instrument of government. Hence the CMU's primary role is to ensure compliance with SDA's, on behalf of government. However, a vacuum has been created in addressing shareholder concerns with UAC's, and so as the primary interface between Council and the UAC's, CMU is filling that need.
- Issue: UAC's perceive CMU as wearing not only the client hat, but also the shareholder hat, because CMU attends Board meetings and advises on Business Plans. Correspondingly, Portfolio Committees perceive CMU as representing UAC's.
- The model has not yet been fully formed as to the aspects of price setting. There are three phases of price setting: tariff policy, tariff methodology, and tariff formulation through negotiation. In the model, setting tariff policy will not be the role of CMU, but that role is not yet fulfilled by others.
- Issue: In the absence of a tariff policy, CMU may be called upon to act beyond its authority to determine policy. Therefore, the UAC's perceive the CMU as wearing a third hat, that of a regulator.

Diversity of UACs Requires Different Contract Management Approaches

The UACs are not a homogenous group as regards their economic characteristics and market conditions. As a result, some require primarily contract management while others require more policy input and regulation (to pursue social objectives and compensate for market failures). For others, the City is not really a client, but only the shareholder (e.g. Civic Theatre). To take full advantage of the benefits of corporatisation and rationalise shareholder, client and regulatory functions, it is essential to recognise the differences. They can best be understood when the UAC's are grouped with regard to the following parameters:

- Whether the services are delivered directly to the residents of the city or as support services to the City Administration;
- Whether the services are monopolistic, natural or *de facto*, or are subject to competition;
- Whether the services provided to the residents are private goods for which users pay on the basis of consumption, or public goods, which are paid for out of general revenues, or for which users pay only nominal fees.

Essential services for which users pay (especially monopolies like water) require contract management and tariff setting process. Public services without user fees and administrative support services require contract management (as a client). Competitive private goods require least oversight (primarily shareholder oversight).

Executive Summary of Draft Final Functional Analysis and Implementation Strategy (continued)

Responsibility of the Shareholder to Define Corporate Strategy

The Advisory Team's understanding is that today's status is the final state for UAC's. Therefore, the Advisory Team suggests that Council (as shareholder) should now determine a long-term strategy for each UAC. One key element of strategy will be financial, whether the UAC is called upon to be a profitable, growing public sector enterprise, a breakeven enterprise, or a subsidised loss-making enterprise. Another will be whether the enterprise is being positioned for a future commercial direction.

The Advisory Team recommends that City Council recognise its shareholder responsibility, and establish or appoint a political organisation to fulfil the role. This political organization (or individual) would take a long-term view and would approve members to UAC's Boards of Directors, establish strategy for each UAC, and provide policy direction to Boards of Directors. Correspondingly, this organisation would be supported by an arm of the City Administration, such as an "office of shareholder services".

Municipal Government's Duty as Service Authority/Client

The Advisory Team observed that Johannesburg has made substantial progress in implementing the new model by establishing SDA's, and that Portfolio Committees and the CMU are actively pursuing their responsibilities as client under the SDA's. These responsibilities include defining level and quality of services, negotiating Key Performance Indicators, and monitoring performance. The next step, often the most difficult one in such relationships, will be to negotiate the tariff or budget subsidy. This step has been delayed until the Finance Department is able to determine opening balance sheets for each UAC, which is expected very soon.

The Advisory Team suggests that CMU be the principal instrument of Municipal Government responsible for representing the Client's interests. As its name implies, primarily responsible for management of contracts for services, the CMU:

- Translates policy directives on public services from Council (Executive Mayor and Portfolio Committee) to service provider;
- Negotiates service level, quality and price with the service provider;
- Develops SDA terms with the service provider;
- Monitors performance and enforces compliance based on SDA's.

Clarifying the Role of CMU and Its Relationships

In order to clarify the CMU's role, it is best to first define the role of the UAC's. The management of each UAC is accountable to its Board of Directors, and UAC management prepares a business plan for the Board. The Board is accountable to City Council (through the appropriate committee or individual designated as shareholder). UAC management reports to CMU, according to agreed contract monitoring procedures.

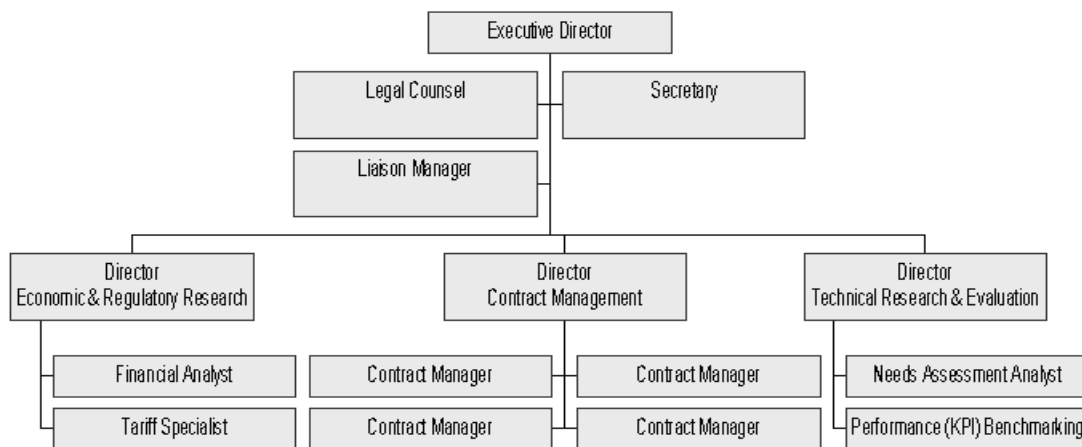
Executive Summary of Draft Final Functional Analysis and Implementation Strategy (continued)

The Advisory Team sees the role of CMU as contract manager in a negotiated procurement (as regards most UAC's), and in some cases competitive procurements (such as for City support services). To the UAC's, the CMU is also acting as an intermediary in the regulatory process, since the City assumes the role of authority in several instances. In its role, the CMU needs to be focused on contract compliance and performance monitoring, rather than business monitoring. Because of its core competence, the CMU will need clear criteria to avoid becoming the City's purchasing agent for all manner of commodities (procurement creep).

The Advisory Team recommends that the role of the CMU within the City Administration also be clarified. The Advisory Team recommends that shareholder support services be assigned elsewhere, in order to focus CMU on the client role. In addition, it is recommended that the role of supporting Council to develop tariff policy be assigned to the Finance Department. CMU will be responsible for taking this policy and formulating tariff methodologies for approval by Council, and for negotiating tariffs with UAC's. This separation of policy and implementation is of critical importance.

Based on these recommendations, the Advisory Team developed a suggested organizational structure for the CMU, as shown below. If the CMU is to be assigned additional duties, such as the "office of the shareholder", then that office should be clearly separated in the CMU organisation, so that different individuals perform the client and the shareholder role.

Suggested Organizational Structure of CMU



Executive Summary of Draft Final Functional Analysis and Implementation Strategy (continued)

Recommended Actions and the Way Forward

The Advisory Team sees the following as next steps in developing an implementation strategy for the CMU:

- Clarify the roles of Client and Shareholder
- Political organisation – assign shareholder responsibility
- City Administration - assign “office of the shareholder” to an appropriate location
- Present revised CMU Business Plan to Council, adapting to redefined role
- Develop CMU’s Capacity
- Organisational structure & function
- Staffing & compensation
- Training & development
- Adopt procedures & methodologies

e. Final Summary Position Descriptions

Once a consensus was reached on the division of responsibility for the shareholder and client functions, and related issues were thoroughly discussed, the Expert Advisory Team proceeded to clarify the recommended organizational and staffing structure for the CMU and to develop specific job descriptions for each of the positions on the suggested organization chart.

The following presents the title of each position and a summary description of the position:

| Position | Summary Description |
|---------------------------|--|
| Executive Director | Directs the implementation strategy that transitions the delivery of public services in the City of Johannesburg into a contractual, business relationship between the UAC's, or some other contractual service provider, and the Council, as client and representative of the people. Translates public policy, in terms of public service delivery, as defined by the Council through its various Portfolio Committees, into contractual standards of performance, captured in enforceable contracts with public or private service providers. Monitors the implementation of contracts to ensure that Council is able to discharge its responsibility for delivering essential public services. |

| Position | Summary Description |
|--|---|
| Director, Contract Management | Manages the procurement, negotiation, and contract fulfilment process (hereinafter referred to as contract management) as it relates to capturing the policy objectives of the Council in contracts with service providers. Ensures that contract management is conducted in a standardized and documented manner, and that Contract Managers carry out their duties in accord with the highest standards of professionalism so as to protect the interests of the Council. |
| Director, Technical Research and Evaluation | Provides technical analysis to support the contracting process and formulates technical and operational performance and service quality targets and related reporting requirements to be incorporated into contracts for service delivery. Collaborates with the Contract Managers in negotiating said targets and reporting requirements. Undertakes research in the areas of best practice, benchmarking, and performance indicators. Develops performance and service quality policy recommendations that reflect "best practice" as is appropriate in the context of the Johannesburg metropolitan area. Undertakes needs assessments for each type of public service, and recommends policies to address needs that are not being met. Liases with regulators and other government departments in South Africa to ensure consistency and resolve any issues and conflicts that arise with regard to technical standards and targets. |
| Director, Economic and Regulatory Research | Provides financial and economic analysis and formulates and negotiates methodologies for setting tariffs and/or fees to be incorporated in the contracts with relevant service providers (i.e., service providers which are subject to contractual terms that regulate or determine their tariffs or fees). Undertakes research and policy development in the areas of tariff and fee determination and willingness-to-pay. Contributes to the development of tariff policy. Liases with regulators and other government departments in South Africa to ensure consistency and resolve any issues and conflicts that arise with regard to tariffs and tariff setting methodologies. |
| Legal Counsel | Provides legal advice to the CMU and, through the Executive Director, to the relevant Portfolio Committee Chairperson on matters relating to the activities of the CMU. Formulates contracts, leads negotiations with service providers, and manages licensing regimes and a dispute resolution regime as they relate to the activities of CMU. |
| Contract Manager | Manages contracts for a specific service or services, as delegated by the Director of Contract Management. Manages contracts in a standardized and documented manner, and in accordance with legal requirements, city policy and CMU systems. Applies the highest standards of professionalism and objectivity to all aspects of the contracting process in order to protect the interests of the City Council. |
| Needs Assessment Analyst | Analyses consumer needs for, level of satisfaction with, and willingness-to-pay for the various services for which contracts are managed by the CMU. Analyses the impact on the aforementioned services of proposed and approved national standards of service quality, access to service, and other technical standards. Provides analytic support for the development of policies, strategies and contractual terms for meeting consumer needs and complying with mandated standards. Assumes other related responsibilities as directed by the Director of Technical Research and Evaluation. |

| Position | Summary Description |
|--|---|
| Performance-Benchmarking Specialist | Provides technical support in the development of terms of reference, scopes of services, and performance criteria to be negotiated and incorporated into contracts for service delivery. Undertakes research and provides analytical support for policy development in the areas of technical best practice, benchmarking, and performance and service quality standards and targets for the various services. Assumes other related responsibilities as directed by the Director of Technical Research and Evaluation. |
| Tariff Analyst | Undertakes research and provides analytical support for policy development in the areas of tariff and fee determination and willingness-to-pay. Provides financial and economic analysis to support the development of tariff and fee setting methodologies. Supports the Contract Managers in the negotiation of tariff and fee formulae and procedures. Assumes other related responsibilities as directed by the Director of Economic and Regulatory Research. |

f. Presentation at CMU Strategic Planning Workshop (13 Sep 02)

David Keith and Thelma Triche facilitated a working group session with CMU senior staff at the CMU Strategic Planning Workshop to clarify the distinction between the Shareholder and Client roles. For the CMU and SU, it addressed and distinguished the difference in terms of the description, vision, mission, strategy and focus. It also presented the objectives for the CMU and the Su for 2002/03. Further, it went on to present the challenges, organization, funding sources, monitoring and evaluation of each unit. Lastly, it described a transition path for the CMU and the SU, and finally a CMU Work Flow Process.

The slides developed for this workshop are included at the end of this Report.

6. RECOMMENDATIONS TO TRANSITION CMU INTO ITS REDEFINED ROLE

As stated earlier in this Report, the Project did not follow a course or time schedule as it was originally conceived and designed. The CMU, with USAID approval, elected to use the Expert Advisory Team as a high level strategic advisor, and to contract directly with several South African consulting firms for detailed analysis, implementation and monitoring. What the CMU has achieved is a clearer role for itself, and a better understanding of its role in the minds of other stakeholders. This is a sound foundation for transitioning the CMU and strengthening its functions and performance. The decision of the Mayoral Committee to clearly delineate the Shareholder role represents an innovative step that further solidifies the Johannesburg model. This decision is seen by the CMU as a direct result of the work of the Expert Advisory Team.

The presentation by the Expert Advisory Team at the CMU Strategic Planning Workshop on 13 September 2002 contained a slide titled, "2002/2003 CMU Objectives". The CMU is now posed to move aggressively on achieving these objectives. They are presented below for ease of reference.

- Set organization design, complete staffing, and manage the change.

- Modify SDA's to remove shareholder elements.
- Determine tariff methodologies and procedures.
- Determine KPI standard-setting procedures.
- Develop contract management framework.
- Design and implement reporting, monitoring and evaluation processes.
- Develop performance-contracting model.
- Facilitate promulgation of by-laws.
- Establish training plan.
- Determine authority for environmental KPI's.
- Establish CMU negotiation & dispute resolution procedure.
- Integrate with City strategy.
- Improve coordination w/UAC's & City Departments.
- Manage transition of SU.
- Finalise interface liaison, communication.
- Design & implement a permit and license-granting regime.
- Design a framework for future PPP's.
- Establish CMU administration/secretariat procedures.
- Establish service level agreements with City Departments.
- Develop a CMU internal tasking procedure.
- Develop a CMU expenditure procedure.

Attachment

Slide Presentation made by the Expert Advisory Team at the April 2002 Workshop on the Draft Functional Analysis and Implementation Strategy

Slide 1

Functional Analysis and Implementation Strategy for Contract Management Unit

City of Johannesburg Metropolitan Municipality

PADCO Inc./USAID

19 April 2002

Slide 2

Background of Technical Assistance

- Original advisory services
- Redefined advisory services
- Development of issues and options
- Draft functional analysis and implementation strategy

Slide 3

Objective of Presentation

- Identify the issues to be addressed that impact the functioning of “The Johannesburg Model”
- Suggest a logic for addressing these issues
- Propose a way forward for the City and the CMU under the Johannesburg Model

Slide 4

Fundamental Issues Under Johannesburg Model

- UAC’s as companies and the “end game”
- City Council as shareholder
- Municipal government as client
- CMU as instrument of government
- Tariff policy, methodologies, negotiation

Slide 5

UAC's as a Structural Transformation

- Corporatisation of service entities
- Increased service delivery efficiency
- Improved service delivery cost-effectiveness
- Autonomy and accountability
- Increased management capacity and focus

Slide 6

Economic Characteristics of UACs

- Essential services for which users pay
 - Water, Power, Gas, Pikitup domestic, Metrobus public transit
- Public services/no or nominal user fees
 - Pikitup street cleaning, disposal, Roads, Parks, Zoo, Trading Co.
- Administrative support
 - Propcom, Fleet, IT

Slide 7

Economic Characteristics of UACs

- Private goods subject to competition
 - Fresh Produce Market, Civic Theatre, Pikitup commercial, Metrobus commercial
- Special purpose
 - JDA

Slide 8

Different Contract Management Approaches

- Essential services for which users pay (especially monopolies) require contract management and tariff setting process
- Public services without user fees and administrative support services require contract management (as a client)
- Competitive private goods require least oversight (primarily shareholder oversight)

Slide 9

Defining the End Game – Shareholder Issue

- Is today's status of UACs the final state?
- What is shareholder's strategy for each UAC?
 - Profitable, growing public sector enterprise
 - Breakeven enterprise
 - Subsidised loss-making enterprise
 - Position for future commercial direction
- How is this being addressed today?

Slide 10

City Council as Shareholder

- Recognise shareholder responsibility
- Approve members to UAC's Boards of Directors
- Establish strategy
- Provide policy direction to Boards of Directors
- Establish Shareholder Support Services (SSS)

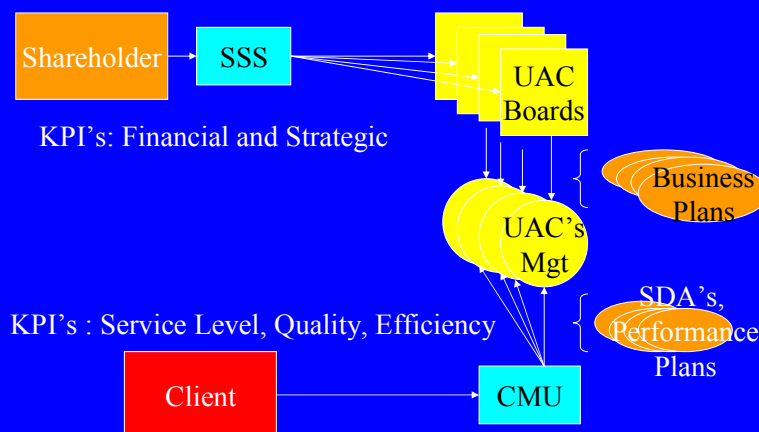
Slide 11

Municipal Government as Service Authority/Client

- Define level/quality of services
- Negotiate Key Performance Indicators
- Negotiate tariff or budget subsidy
- Monitor performance

Slide 12

UAC Performance – Shareholder and Client Views



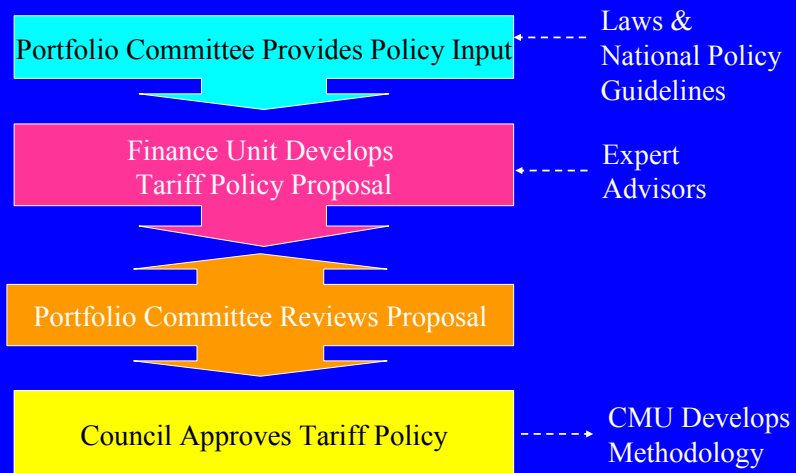
Slide 13

CMU as Instrument of Municipal Government

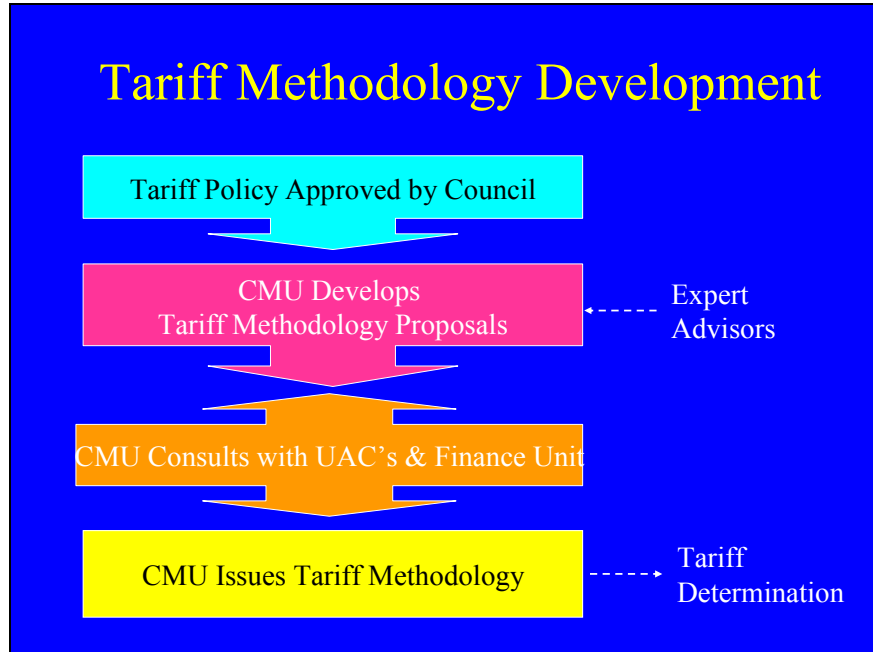
- Translates policy and directives on public services from Council (Executive Mayor & Portfolio Committee) to service provider
- Negotiates service and price with service provider
- Develops service delivery agreement (SDA) with service provider
- Monitors performance and enforces compliance based on SDA's

Slide 14

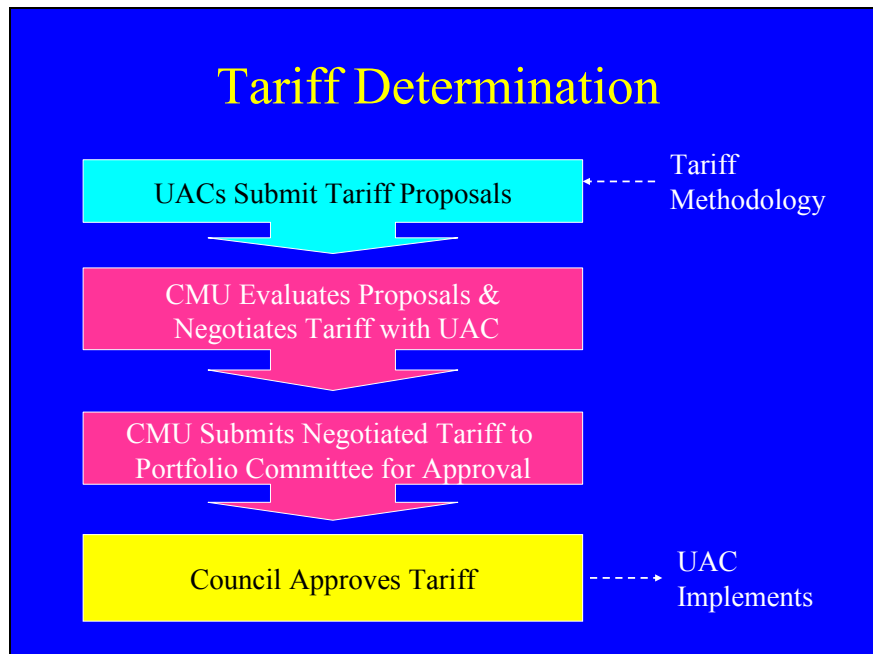
Tariff Policy Formulation



Slide 15

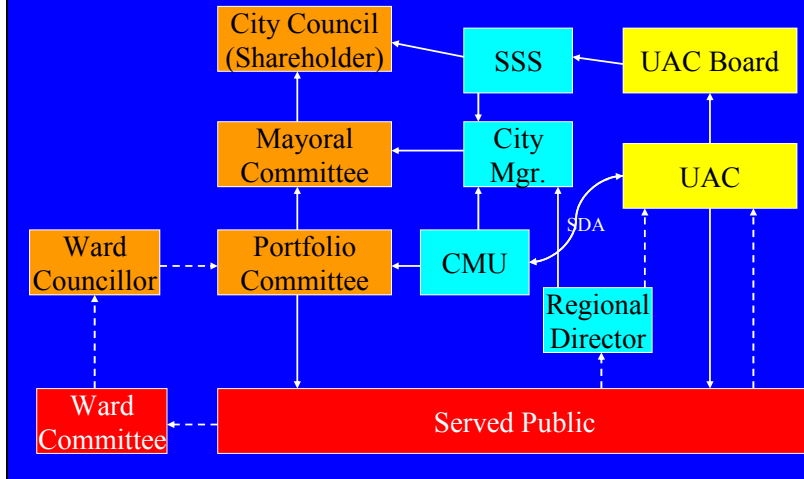


Slide 16



Slide 17

The Johannesburg Model



Slide 18

The Johannesburg Model Within Evolving Municipal Government Legislation

- Local Government Transition Act
- Municipal Structures Act
- Municipal Systems Act
- Municipal Finance Management Bill

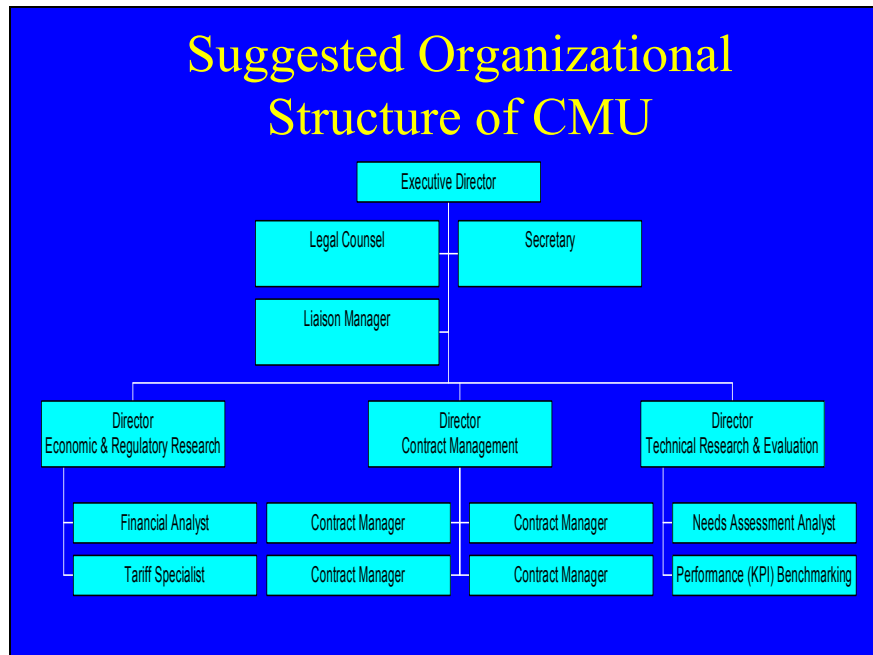
Clarifying the Relationships

- UAC management accountable to Boards of Directors
- UACs prepare business plans for Boards
- Boards accountable to City Council (for example, a shareholder committee)
- UACs report to CMU

Clarifying Role of CMU

- Contract manager in a negotiated procurement
- Intermediary in the regulatory process
- Focused on contract compliance and performance monitoring, rather than business monitoring
- Needs clear criteria to avoid procurement creep

Slide 21



Slide 22

Actions & The Way Forward

- Clarify CMU's Role as Client Representative
- Shareholder Support Services in appropriate location
- Develop CMU's Capacity
 - Organisational structure & function
 - Staffing & compensation
 - Training & development
- Adopt Procedures & Methodologies
- Present Revised CMU Business Plan to Council

Attachment 2:

Slide Presentation made by the Expert Advisory Team at the September 2002 CMU Strategic Planning Workshop

Slide 1

Strategic Plan for Contract Management Unit & Shareholder Unit

City of Johannesburg

PADCO Inc./USAID

Misty Hills Retreat

11-13 September 2002

Slide 2

Background of USAID Technical Assistance to CMU

- Development of issues and options
- Draft functional analysis and implementation strategy
- Advise on strategic plan & reorganisation

Slide 3

Objective of Presentation

- Present PADCO-prepared suggestions on the Strategic Plan parameters.
- Facilitate brainstorming with CMU/SU senior staff on each of the Strategic Plan parameters
- Attempt to achieve consensus on the wording of the Strategic Plan parameters
- Propose a way forward for the restructuring of CMU/SU

Slide 4

Strategic Plan Parameters

- Short description of the Unit
- Vision
- Mission
- Strategy
- Focus of Activity
- 2002/03 Objectives
- Challenges
- Organisation Structure
- Funding
- 2002/03 Transition Path

Slide 5

Short Description

- CMU
 - A unit of CoJ, reporting to City Manager, representing the interests of CoJ, as client, and the interests of consumers through mechanisms such as service delivery agreements with municipal-owned and privately-owned entities.
- SU
 - A unit of CoJ, reporting to City Manager, representing CoJ's interests as shareholder in municipal-owned entities, through mechanisms such as corporate governance framework and shareholder compacts.

Slide 6

Vision

- CMU
 - To be regarded by Council and consumers as a world-class municipal services contract negotiation and performance fulfilment unit.
- SU
 - To be regarded as a world-class public asset management unit.

Slide 7

Mission

- CMU
 - To ensure that good quality, affordable, efficient municipal services are delivered to consumers, consistent with government policies and appropriate standards.
- SU
 - To maximize shareholder value in the interests of the community by preserving capital and ensuring the maintenance and development of infrastructure and the financial viability of municipal-owned entities.

Slide 8

Strategy

- CMU
 - Formulate, negotiate and ensure fulfilment of service delivery agreements designed to achieve mission.
 - Facilitate formation of public-private and public-public partnerships for the delivery of services
 - Develop permitting, licensing and consents regime as it relates to the mission.
- SU
 - Formulate corporate governance framework designed to achieve mission.
 - Negotiate and ensure fulfilment of shareholder compacts.
 - Facilitate development of policy and communicate to Boards of Directors of municipal-owned entities.
 - Act through Boards.

Slide 9

Focus

- CMU
 - Service delivery
 - Tariffs
 - Key performance indicators
 - Licences, permits and consents
 - By-laws
- SU
 - Corporate governance & risk management
 - Financial viability of municipal-owned entities
 - Capital allocation
 - Shareholder business strategy
 - Social responsibility

Slide 10

2002/03 CMU Objectives

- Set organization design, complete staffing, manage the change
- Modify SDAs to remove shareholder elements
- Determine tariff methodologies and procedures
- Determine KPI standard-setting procedures
- Develop contract management framework
- Design and implement reporting, monitoring and evaluation processes
- Develop performance contracting model
- Facilitate promulgation of by-laws
- Establish training plan
- Determine authority for environmental KPIs
- Establish CMU negotiation & dispute resolution procedure
- Integrate with City strategy
- Improve coordination w/UACs & City dept's
- Manage transition of SU
- Finalise interface liaison, communication
- Design & implement a permit and licence granting regime
- Design a framework for future PPPs
- Establish CMU admin/secretariat procedures
- Establish service level agreements with City dept's
- Develop a CMU internal tasking procedure
- Develop a CMU expenditure procedure

Slide 11

2002/03 SU Objectives

- Set organization design & complete staffing
- Develop governance framework
- Develop shareholder compacts
- Develop working process with UAC Boards
- Consolidate financial results and financial business plans of UACs into a consolidated portfolio model, as if a holding company
- Develop a capital investment allocation model, as if a holding company

Slide 12

Challenges

- CMU
 - Reconciling roles of client and regulatory authority
 - Educating councillors and consumers
 - Tariff methodology and process, given constraints of national government and bulk suppliers
 - Obtaining information from other CoJ units, e.g. call centre, planning
 - Budget, and source of funding
- SU
 - Starting up a new function and obtaining a budget (or other source of funding)
 - Establishing relationships with UAC Boards
 - Quantifying the City's social (non-financial) capital investment allocation objectives
 - Accountability among units of the CoJ

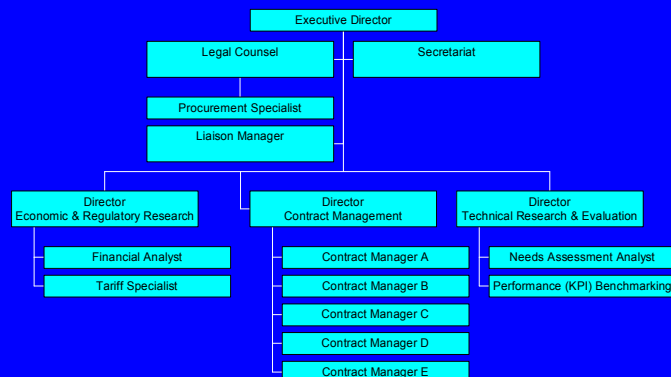
Slide 13

Organisation

- CMU
 - **Contract management** – line management of the process of negotiation and fulfilment of SDA's
 - **Economic research** – determines tariff methodology, negotiates SDA tariffs, conducts economic and regulatory research, advises on SDA compliance
 - **Technical research** – determines quality of service (and other) standards, negotiates SDA KPIs, conducts technical and operational research, advises on SDA compliance
 - **Legal** – facilitates promulgation of by-laws, drafts contracts, advises on contract compliance, manages licensing regime, leads negotiations, manage dispute resolution regime
- SU
 - **Corporate governance** – represents CoJ in functions such as appointment of Boards of Directors and annual shareholder meetings
 - **Finance** – monitors UAC financial performance, ensures capital assets are preserved, arranges financing for UACs with CoJ ALCO, develops consolidated financial model, develop risk management policy
 - **Business strategy** – develops investment asset allocation model, and performs strategic review and direction of CoJ Group

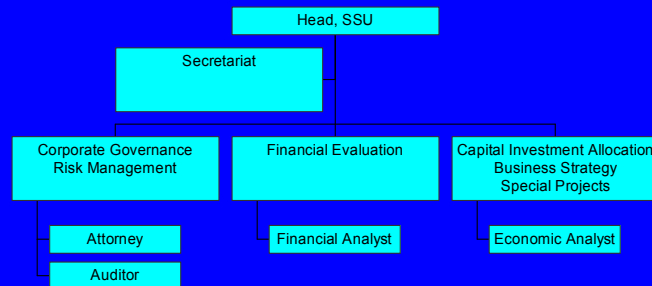
Slide 14

Suggested Organizational Structure of CMU



Slide 15

Suggested Organizational Structure of SU



Slide 16

Funding

- CMU
 - On-budget.
 - May evolve some elements (authority role) over time to fees collected from licensees
- SU
 - On-budget.
 - May evolve to a corporate overhead charge made to UAC's, based on a measurable parameter such as asset value or revenue

Slide 17

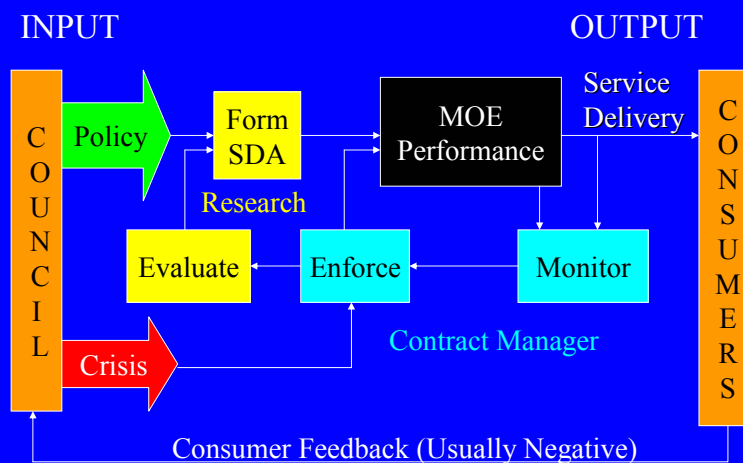
Monitoring

Monitoring Is A Continuous Process

- CMU
 - Objective of monitoring is to enable control of SDA
 - Monitoring is active
 - Monitoring the past and present
 - Monitoring is a key aspect of contract management
 - Each SDA must have its own monitoring regime to ensure SDA compliance and to allow tariff formation
 - Monitoring also provides data for subsequent evaluation
- SU
 - Objective of monitoring is to enable consolidation of results
 - Monitoring is passive
 - Monitoring the past
 - Monitoring actions of MOE Boards through Minutes of Board meetings
 - Monitor financial performance of MOE's through normal quarterly financial reports

Slide 18

Service Delivery Process



Slide 19

Evaluation

Evaluation Is By Discrete Studies/Projects

- CMU
 - Objective of evaluations is to improve service delivery
 - Evaluate performance against SDA's
 - Evaluations pursuant to tariff formation
 - Evaluations and research toward improving KPIs
- SU
 - Objective of evaluations is to improve corporate governance
 - Evaluate performance of Boards
 - Evaluate performance of auditors
 - Evaluate asset condition and valuation
 - Conduct due diligence prior to transactions

Slide 20

Transition Path for 2002/03

- CMU
 - Appoint directors
 - Appoint/recruit contract managers
 - Revise SDA's
 - Establish tariff methodology
 - Begin research toward improving KPIs
- SU
 - Remove offices from CMU
 - Supporting HR systems and budget
 - Appoint staff
 - Establish corporate governance framework
 - Design capital investment allocation framework
 - Operationalise Advisory committee
 - Design business plan process
 - Organise 1st annual shareholder meetings

Slide 21

